

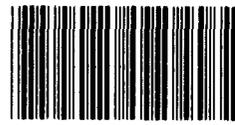
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Fact Sheet for the Chairman,
Committee on Ways and Means,
House of Representatives

April 1991

SOCIAL SECURITY

Information About the Accuracy of Earnings Records



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Human Resources Division

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April 19, 1991

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

On December 12, 1990, at a meeting with your office, you asked us two questions related to the earnings records maintained by the Social Security Administration (SSA).

- How accurate are the earnings records that SSA maintains?
- Are certain workers more likely to have errors in their earnings records than others?

We agreed to contact SSA to obtain any available information or studies related to your questions and summarize them for you.

Appendix I summarizes the objectives, evaluation approach, findings, and limitations of SSA studies concerning the accuracy of its earnings records. For presentation purposes, we have classified these studies into two categories—posting accuracy and payment accuracy. In short:

- The first category relates to how accurately SSA posts to its earnings records the millions of wage reports it receives each year from employers and self-employed taxpayers. These studies indicate that if SSA receives and processes a wage report, the chances of it recording the report to the wrong account, or in a different amount than reported, are very small. It should be noted, however, that the studies have certain limitations in their ability to identify errors in the earnings records.
- The second set of studies were directed at the accuracy of SSA's benefit payments, which are based on a person's lifetime earnings. One 1987 study, in particular, appears to directly address your concern about the accuracy of SSA's earnings records. Specifically, the study found, in a nationwide sample of 1,744 persons receiving their first retirement benefit check in June 1985, that about 6.5 percent had one or more errors in their earnings records. However, it noted that not all of these errors affected benefits. A second payment accuracy study issued in 1989 found a similar error rate. Again, certain limitations exist with these studies.

Appendix II presents information about the types of workers who may be most prone to have an earnings record problem. There were no published studies directly related to this issue. However, there were some data from an unpublished internal study of SSA's 1978 suspense file of uncredited earnings. It provided information on the proportion of employees in the SSA file by broad industrial groups. The data show, for example, that for 1978, almost 20 percent of the wage reports filed by businesses involved in agricultural production and services were not credited to valid workers' social security accounts. Also, information describing such events as legal name changes due to marriage or employment situations associated with known wage-reporting problems was discussed in some studies on other matters.

As arranged with your office, we have not obtained agency comments. Unless you publicly announce the contents of this fact sheet earlier, we plan no further distribution until 30 days after its issue date. At that time we will send copies to the Commissioner of SSA and the Senate Finance Committee, and we will also make them available to other interested parties upon request.

Should you wish to discuss these issues further, I can be reached on 275-5365. Other major contributors are listed in appendix III.

Sincerely yours,



Gregory J. McDonald
Associate Director,
Income Security Issues

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Abbreviations

IRS	Internal Revenue Service
SEI	self-employed income
SSA	Social Security Administration
SSN	social security number

Accuracy of SSA Earnings Records

Accurate earnings information is critical to the effective operation of the social security entitlement programs. Both entitlement to program benefits and benefit amounts are based on a worker's earnings record.

Recognizing this importance, SSA routinely conducts a variety of studies to examine the integrity of its earnings records. In February 1991, SSA provided us with copies of several relevant studies completed since 1987. These studies supplemented other studies that we had previously obtained.

The SSA studies often do not provide an extensive methodology section. However, they usually are based on random selections of cases for review. In addition, unless otherwise indicated, the sample sizes are large enough to provide an accurate measure of errors at the 95-percent confidence level with high degrees of precision (about 1 percent). As such, the SSA studies appear to provide reliable measures. We have classified these studies into two categories for presentation purposes—posting accuracy and payment accuracy.

Posting accuracy studies involved examinations of whether the wage data that SSA processed for tax years 1978-87 had been correctly posted to individual worker's accounts. Payment accuracy studies focused on errors related to earnings record problems, as well as other matters that cause payment errors. A summary of these studies follows, including their objectives, methodology, and results.

Posting Accuracy Studies

Since 1987, SSA has issued a series of reports that examine how accurately it has posted the earnings data submitted by employers to individual worker's earnings records. These studies measured posting accuracy beginning with tax year 1978, the start of a new annual wage reporting process. Before this time, wages were reported and recorded quarterly. SSA encountered many operational problems at the start of annual wage reporting, which required many computer system changes and greatly delayed the posting of earnings to workers' social security accounts.

To conduct these studies, SSA randomly selected samples of processed wage/income reports from its files for each of the tax years being examined. It then traced the wages reported on the sampled reports to its earnings files to determine if the income had been recorded to the proper account and in the proper amount.

Earnings from three types of reports were examined: those submitted by employers on paper and in magnetic media format and those submitted with tax returns to the Internal Revenue Service (IRS) for self-employed income (SEI) that were then transferred to SSA. The earnings from these reports were first traced to SSA's master earnings file, which contains the lifetime earnings for all accounts with valid social security numbers (SSN) and name combinations.

If the earnings for the sampled worker and tax year were not found, the suspense file of uncredited earnings was checked to see if it contained the income shown from the sampled report. The suspense file contains the reported earnings where applicable individual accounts could not be identified due to problems with the name and/or SSN on the wage report. If the wage report was found in one of these two files, it was considered to have been accurately posted. If not found, a posting error was considered to have occurred. See table I.1 for a summary of these studies.

Appendix I
Accuracy of SSA Earnings Records

Table I.1: Summary of SSA Posting Accuracy Study Results

Tax year	Type of wage report	Universe of wage reports (millions) ^a	Sample size	Errors found	
				Number	Percent
1978	Paper	140	531	11	2.0
	Magnetic media	55	131	0	0.0
	SEI	8	28	0	0.0
1979	Paper	140	510	12	2.0
	Magnetic media	55	126	1	0.8
	SEI	8	26	0	0.0
1980	Paper	140	520	1	0.2
	Magnetic media	55	128	1	0.8
	SEI	8	27	0	0.0
1981	Paper	140	507	2	0.4
	Magnetic media	55	125	0	0.0
	SEI	8	26	0	0.0
1982	Paper	130	531	3	1.0
	Magnetic media	65	131	0	0.0
	SEI	8	28	0	0.0
1983	Paper	130	518	10	2.0
	Magnetic media	65	128	0	0.0
	SEI	9	27	0	0.0
1984	Paper	140	556	4	1.0
	Magnetic media	70	128	0	0.0
	SEI	10	50	0	0.0
1985	Paper	140	750	3	0.4
	Magnetic media	70	750	0	0.0
	SEI	10	767	1	0.1
1986	Paper	105	750	4	0.5
	Magnetic media	121	750	0	0.0
	SEI	11	500	0	0.0
1987	Paper	92	750	1	0.1
	Magnetic media	147	750	0	0.0
	SEI	11	500	0	0.0

^aThese figures are approximations of the total number of wage reports.

The table shows that SSA accurately posted the income shown on the wage reports it received each year. This is not surprising because in the posting process SSA is basically transferring information from employer-filed wage reports to its earnings files. The majority of this work is done electronically, with limited manual intervention. Thus, there is little chance for human error to be introduced into the process. Because SSA

has been recording huge volumes of wage data for more than 50 years, it has had a long time to perfect the posting process.

It should be noted, however, that the sample sizes for the studies of posting accuracy of SEI reports for tax years 1978-84 were too small to produce reliable estimates of posting accuracy. The sample sizes for SEI reports were increased for tax years 1985-87 and were large enough to produce reliable estimates.

Other SSA studies focused on the posting accuracy for selected types of wage reports where problems were suspected. These studies involved tax year 1987 wage reports for agricultural workers, household workers, and workers who had their earnings records corrected in 1987. As shown in table I.2 these targeted studies found that SSA also posts reported wages for these types of reports accurately.

Table I.2: Targeted Earnings Posting Accuracy Studies

Tax year	Type of wage report	Sample size	Errors found	
			Number	Percent
1987	Agriculture	1,016	3	0.3
1987	Household	1,000	0	0.0
Before 1988	Corrected W-2s	1,015	12	1.2

In one study, however, SSA identified that reports for agriculture wages were more likely to be posted to SSA's suspense file than other types of wage reports. About 7 percent of W-2s reporting agricultural wages were posted to the suspense file. In contrast, SSA posts about 3 percent of all the wage reports it receives each year to the suspense file. (This finding relates to the Committee's second concern and is discussed further in app. II.)

The posting accuracy studies give a view of how effectively SSA's processing systems operate in handling the wage data received. The studies, with the exceptions previously noted on the early studies of SEI posting, provide reliable estimates of posting errors. They do not, however, provide a good estimate of the error rate in SSA's earnings records. Because these studies are based on wage reports that have been processed (on-hand), they cannot identify certain other types of errors in the earnings records. These errors include instances where

- employers failed to report wages for either some or all of their employees,

- the wages reported were for the wrong amount, and
 - SSA may have lost the wage report(s) before processing was completed.
-

Payment Accuracy Studies

SSA routinely studies the accuracy of the benefit payments made under the various programs it administers. Two recent payment accuracy studies focused on benefit payment errors attributed to earnings record problems. We believe these particular studies provide the best measure of SSA's earnings record accuracy for the following reasons:

- They examined the records from a lifetime perspective. This makes it possible to find errors from prior periods when there was more manual processing of data and greater chance for human error to be introduced by SSA in its posting of wages. Also, it allows a better measure of the impact of errors on the benefit payment.
 - They involved direct contact with the persons sampled for study. Direct contact increases the chances of spotting errors difficult to identify (missing or incorrectly reported/recorded amounts) and obtaining evidence to substantiate the error.
-

Payment Accuracy— Initial Claims Study

In June 1987, SSA released a study of payment accuracy for initial claims that included an analysis of the effect that earnings record errors had on the computation of benefit amounts for new claims. The study was based on a national sample of people receiving an initial payment for retirement and survivor benefits in June 1985. It examined their lifetime earnings records and involved reviews of claims folders, reviews of benefit and earnings records, and interviews with beneficiaries. Further, third-party information was obtained to verify entitlement and benefit amounts.

SSA sampled 1,744 cases in this study and found that 114 cases (6.5 percent) had a total of 202 earnings record errors. In 80 of these cases (4.6 percent), the error affected the monthly benefit amount. The results are summarized in table I.3.

Table I.3: Initial Claims With Earnings Record Errors

Monthly benefit effects	Cases with earnings record errors	
	Number	Percent
More than \$5	43	2.5
Less than \$5	37	2.1
No effect	34	1.9
Total	114	6.5

Note: Number of cases sampled—1,744.

In discussing the types of earnings record errors, the study noted that about 30 percent of the 202 errors related to military wages or deemed military wages. The staff who conducted the study said that these errors reflect instances where SSA failed to credit these wages to the earnings records. (This aspect of the study relates to the Committee's second question and is discussed further in app. II.)

The study is not specific about the precise methodology used to sample cases for review or pursue potential problems. However, the sample size of this study was large enough to provide a reliable estimate of the gross rate of earnings errors in initial claims. To the extent that the sample was random and not biased by its methodology, the results give a reliable estimate of the percentage of individuals applying for benefits who might encounter an earnings record problem.

**Payment Accuracy Study
(October 1988—March 1989)**

In October 1989, SSA reported on the accuracy of payments made to people filing claims for retirement and survivors benefits between October 1, 1988, and March 31, 1989. The earnings record error rate in this study closely approximates the error rate identified in the 1987 initial claims study as discussed above.

The study was based on a national sample of 3,260 cases, stratified on a regional basis. It involved a comprehensive review of each case to identify payment errors and their cause, including an examination of earnings records. The sample size of the study is large enough to produce reliable error estimates on a national basis.

The study described numerous conditions that cause payment errors, including those attributed to the earnings records. Specifically, it reported that 193 cases (about 6 percent) contained earnings record errors that caused inaccurate payments. These errors included the failure to (1) properly develop or include in the benefit computation recent earnings that were not recorded on SSA's records at the time the

claim was filed, (2) resolve gaps (missing wages) in the earnings record, (3) develop for military service or properly use military service wages in the benefit calculation (various rules exist that govern how wages for military service are determined), and (4) identify duplicate, inconsistent, or incomplete earnings posted to individual earnings records.

Trends in Earnings Problems

SSA has no published comprehensive evaluation of whether earnings record problems relate to any particular type of employment or other demographic condition (such as income level and sex of employee). There are, however, unpublished internal studies that have examined these matters relative to SSA's suspense file of uncredited earnings. There is also information in various studies of other operational issues that indicate that certain events or work histories may be more prone to have an earnings problem.

Problem Earnings Files

Two earnings files contain information on "problem" earnings reports—the suspense file of uncredited worker earnings and the reconciliation control file of discrepant or missing employer reports. SSA uses these files in routine program operations. The suspense file is searched when individuals question the accuracy of their earnings records. The reconciliation control file is used to identify employers that must be contacted to obtain missing wage data or identify the cause of disagreements between SSA and IRS records.

Suspense File

Each year employers send SSA more than 200 million earnings reports (form W-2) for their employees. This form identifies each employee by their name and SSN and contains the amount of their social security earnings for the year. SSA uses each worker's annual earnings to update their social security accounts to reflect their lifetime earnings.

To assure that reported earnings are credited to valid social security accounts, SSA routinely compares the name and SSN reported on form W-2 with its control file that identifies to whom it issued each SSN. To pass this point, both the name and SSN must match SSA's control records. Once data are matched, SSA credits the earnings to the indicated worker's account in its master earnings file.

Reports that do not pass this check are recorded in SSA's suspense file of uncredited earnings, pending the receipt of information that will correct the identification problem. Each year, SSA records about 3 percent of the earnings reports it receives to the suspense file. As of October 15, 1990, SSA's suspense file contained about 180 million earnings reports, covering tax years 1937-89, that have not been associated with a valid social security account. These reports had a value of about \$160 billion in uncredited earnings.

The Reconciliation Control File

The reconciliation control file consists of employers who appear to have either (1) failed to file earnings reports with SSA (missing reports) or (2) not filed earnings reports on all of their employees with SSA (discrepant reports). The file is developed by comparing aggregate earnings data that employers submit to IRS for tax collection purposes with the aggregate earnings employers reported to SSA. In making this comparison, SSA identifies about 500,000 employer reports each year that appear to be either missing or discrepant.

Types of Employment Most Frequently Represented in the Suspense File

In 1981, SSA's Office of Research and Statistics made a study of the 1978 suspense file to identify the types of employers that had filed earnings reports that were recorded in the suspense file. The study was for internal use and, consequently, was never published. It was made by taking a 10-percent sample of the employers who had filed the earnings reports that were recorded in the suspense file. SSA then identified the industry code of these sampled employers to identify employment groups with a greater than average likelihood of having items in the suspense file.¹

Table II.1 shows the broad business groupings that had at least 4 percent of their employee earnings reports posted to the suspense file and briefly describes the types of employment groupings. The study results show, for example, that almost one in five earnings items were uncredited for those who worked in agricultural production or service industries. The high rate of agricultural earnings being posted in the suspense file is believed to be related to national illegal immigration problems. This causes people to work under false identities; that is, to make up a name or SSN or to use another person's name or SSN. When people work under these conditions, the wages are likely to get recorded in the suspense file.

¹Each employer whose business is subject to social security tax is assigned a code that identifies certain characteristics, such as the type of business. This classification is made by SSA and is based on the 1972 Standard Industrial Classification Manual, as amended.

**Appendix II
Trends in Earnings Problems**

**Table II.1: Proportion of Employees by
Employment Type Comprising the
Suspense File**

Employment type	Percent of employees in suspense file
Agricultural services (soil preparation, crop, veterinary, farm management, and landscape and other horticultural services)	20.0
Agricultural production (establishments primarily engaged in producing crops, plants, vines, and trees and raising livestock—poultry hatcheries, dairies, egg production facilities, etc.)	16.7
Forestry (operating timber tracts, forest reforestation services and gathering forest products—gum, bark, sap, etc.)	9.6
Fishing, hunting, trapping, commercial fishing (crabbing, clamming, oystering; gathering sponges; operating fish hatcheries, fish and game preserves, etc.)	7.7
Nonclassified establishments (businesses that did not supply sufficient information to be classified into any of the more than 90 major industry classifications)	7.1
Auto repair, services, and garages (furnishing auto repair, rental, leasing, and parking services)	5.0
Leather and leather products (tanning and finishing hides and skins, manufacturing finished leather, artificial leather products, and similar products made of other material)	4.6
Furniture and fixtures (manufacturing household, office, and restaurant furniture; office and store fixtures; etc.)	4.5
Wholesale trade and nondurable goods (distributing paper products; drug proprietaries and sundries; apparel, piece goods and notions; groceries and related products; chemicals and allied products, etc., at wholesale level)	4.5
Eating and drinking places (selling prepared foods and drinks for consumption on premises—fast food and drive-in restaurants, cafeterias, dairy bars, beer taverns, night clubs, etc.)	4.5
Automotive dealers and service stations (selling new or used autos, boats, recreational vehicles, motorcycles, new automobile parts and gasoline service stations, etc.)	4.4
Business services (rendering such services as advertising, credit reporting, collecting claims, mailing, reproducing material, computer programming, data processing, etc.)	4.4
National security and international affairs (serving in the military, working at embassies, consulates, or foreign missions)	4.4
Personal services (serving individuals through laundries, dry cleaning plants, portrait studios, beauty and barber shops, etc.)	4.3
Special trade contractors (painting, roofing, electrical work, plumbing, carpentry, etc.)	4.3
Apparel and other finished products (producing clothing and fabricating products by cutting and sewing)	4.3
Private households (providing domestic services, such as cooking, laundering, gardening; serving as a personal secretary, butler, or maid)	4.2
Miscellaneous repair services (providing repair services, such as electrical, refrigeration, air conditioning, jewelry, and welding)	4.0

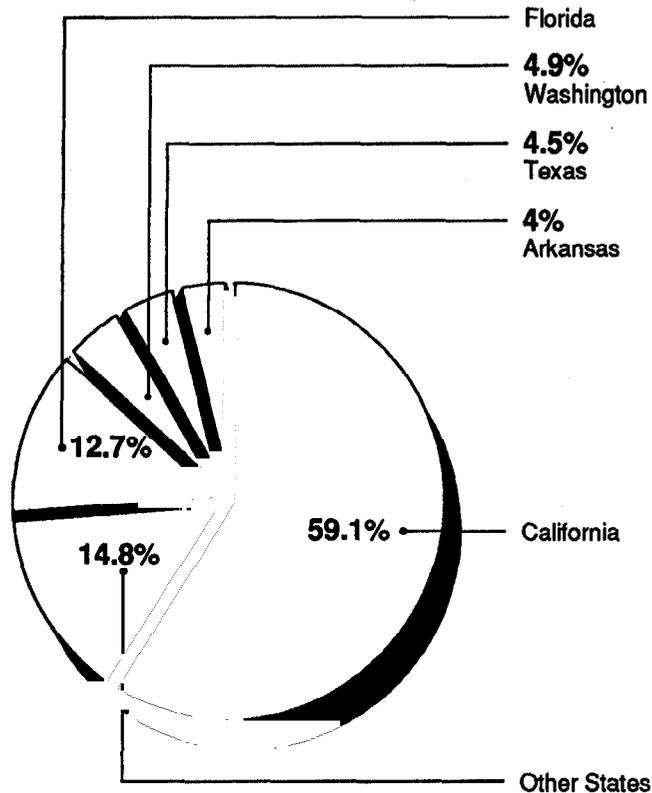
Appendix II
Trends in Earnings Problems

In 1989, the Office of Research and Statistics made another unpublished study of the suspense file, developing descriptive statistics for earnings items for years 1937-87. This study also indicates that agricultural wages were a large portion of the earnings items in the suspense file. In addition, it found that employers from several states with large numbers of migrant workers were large contributors to these suspense file items. Five states accounted for 85 percent of all the annual agricultural items posted to the file. These results are reflected in tables II.2 and figure II.1, respectively.

Table II.2: Number of Suspense File Earnings Items, 1937-87, by Agriculture or Nonagriculture Work

Types of earnings report	Earnings items in suspense file (thousands)	Percent
Annual reports (1978-87)	46,494	
Agriculture	5,676	12.2
Nonagriculture	40,818	87.8
Quarterly reports (1937-87)	124,279	
Agriculture	5,555	4.5
Nonagriculture	118,724	95.5

Figure II.1: Agriculture Earnings in
Suspense File, by State (1978-87)



Observations From Examining the Reconciliation Control File

In March 1987, SSA and IRS formed a joint task force to discover specific causes for disagreements in the aggregate amount of wages that employers reported to them. This task force reviewed 203 cases that it believed represented a cross section of the work load to reconcile disagreements. The group pointed out that generalizations from this study to the universe of reconciliation cases could not be made.

Despite the limitations of the study, the task force noted in its report that certain types of employers were more likely to be responsible for the reconciliation cases. These categories consisted of household employers (with one or two domestic employees) who told SSA they were unaware of their wage-reporting responsibilities. Another consisted of such nonbusiness-type organizations as fraternal or religious organizations, unions, and volunteer fire departments. The task force believed that people designated to file tax forms for these types of organizations

change frequently, and, therefore, they are not fully aware of wage-reporting requirements.

Events or Conditions Associated With Earnings Record Problems

Various information exists about events or employment situations that are associated with earnings reporting problems. Some of this information is found in studies of different topics. Some is anecdotal—based on SSA's work experiences.

Unreported Changes in Surnames

Legal name changes arising out of marriages and divorces, for example, are believed to cause a significant number of the wage postings to SSA's suspense file. When a person works under a new surname and fails to report the surname change to SSA, the wage report will likely be posted to the suspense file because the SSN will not be associated with their new surname. Wages will remain in the suspense file until the surname change is reported to SSA and it can correct the records. SSA staff did not know how many suspense postings relate to this particular problem, but some believe that unreported surname changes are substantial.

Military Wages

Many of the earnings record problems identified in SSA's payment accuracy studies were related to earnings while people were in the military. The recording of these wages can be complicated because a variety of rules govern the treatment of military wages. As noted in appendix I, the study of initial claims found about 30 percent of the earnings record problems identified were related to military wages. Also, the 1989 payment accuracy study (see p. 11) found uncredited military earnings were a frequent problem.

Missing Identification on Form W-2

As noted earlier, for wages to be posted to a worker's account, both the name and SSN on the form W-2 must match SSA's identification control records. One of the more frequent problems involves incomplete identification information on the form W-2 or form W-2c. There were about 6 million earnings reports submitted for tax year 1989 that SSA posted to

Appendix II
Trends in Earnings Problems

its suspense file through December 1990. Of these, about 1.2 million had missing SSNs. This problem can be corrected by workers reviewing their earnings reports, notifying SSA about the missing SSN when they detect the problem, and providing information SSA may need to credit the earnings in question.

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